

Review of the Year

Financial and Economic Environment

In the previous fiscal year, we had to endure a slowdown in economic activity because a state of emergency was declared due to the COVID-19 pandemic, and there was also spread of new variants. Thus, the unpredictable situation is still continuing. On the other hand, the new Kishida Cabinet, advocating a new form of capitalism, was formed in the fall of last year. While downward pressure on the economy is intensifying due to the pandemic, there are hopes the government's new policy will realize a virtuous cycle of growth and distribution.

In the economic environment, geopolitical risk is increasing due to factors such as Russia's invasion of Ukraine and frictions between the U.S. and China, and the future has become increasingly unclear due to soaring raw material prices, inadequate supply of items such as semiconductors, inflation concerns, and response to environmental problems. Although constraints on economic activity due to the pandemic are gradually easing, the pace of recovery is slow for small, medium-sized and micro enterprises, and conditions remain difficult for face-to-face service industries.

For SMEs, corporate financing has improved due to factors such as COVID-19 support financing, but pressure on results is expected to increase in the future, primarily due to lingering effects of the pandemic. Therefore, in our operations as a financial institution, we will need to provide wide-ranging main business support responsive to partner problems at a higher level than ever before.

The COVID-19 pandemic is accelerating changes in social structure, and digitalization is progressing rapidly in areas such as cashless transactions, telework and other forms of remote presence, and electronic procedures. The government has created the Digital Agency to promote digital restructuring, and there is a need to improve productivity through digital transformation (DX).

Operating Policies

Fiscal 2021 marked the middle fiscal year of our medium-term business plan, Smart Shinkin 2022, and we have worked diligently and in due haste to more robustly achieve the objectives of the plan: becoming our customers' number one financial partner for problem resolution and for close ties to the region.

To improve communication with partners in our bank operations, we took steps such as expanding our remote consultation desk and online negotiation system to deal with a broad range of consultations during the COVID-19 pandemic, deploying communication tablets, and assigning personal adviser. Aside from that, we adopted a support system for all counters at all branches to improve customer convenience. Through these efforts, we actively promoted problem resolution for our partners.

Furthermore, we continued efforts to create a system for promoting a cyclical economy aimed at regional revitalization by, for example, installing vending machines which donate part of sales, and deploying a mobile battery sharing service. We also acquired the environmental certification Eco-Action 21 as part of the Bank's promotion of SDGs and development of an ESG financing support system.

To protect customers, we have also strengthened prevention of financial crimes, such as money laundering and sophisticated fraud schemes, as well as cyber-security countermeasures, and enhanced our internal control system.

Internal Control Systems

In accordance with the following Basic Policy on Internal Control Systems adopted by the board of directors based on Article 36, Paragraph 5, Item 5 of the Shinkin Bank Act and the provisions in Article 23 of the Ordinance for Enforcement of the Shinkin Bank Act, our Bank has continued working to develop a system for internal control.

- (1) Provide a system to ensure that all directors and personnel of the Bank execute all duties of the Bank in accordance with the law and the articles of incorporation of the Bank.
- (2) Provide a system to store and manage information with respect to the execution of the duties of each director of the Bank.
- (3) Provide rules and other systems for risk management against losses by the Bank.
- (4) Provide a system to ensure that each director of the Bank executes their duties efficiently.
- (5) Provide a system to ensure propriety of the following systems and other operations in the Bank group.
 - Provide a system to ensure that all directors and employees of subsidiaries of the Bank execute all duties of the Bank in accordance with the law and the articles of incorporation of the Bank.
 - Provide a system for reporting matters relating to the execution of duties by directors of the Bank's subsidiaries.
 - Provide rules and other systems for controlling the risk of losses by Bank subsidiaries.
 - Provide systems for ensuring efficient discharge of duties by senior management of Bank subsidiaries.
- (6) Establish provisions regarding personnel when requested to be assigned to assist auditors of the Bank in performing their duties.
- (7) Establish provisions to ensure the independence from directors' influence of personnel assigned to assist auditors of the Bank and the effectiveness of auditors' instructions with respect to said personnel.
- (8) Provide a system by which directors and personnel of the Bank and directors and employees of subsidiaries, or persons who have received reports from said persons, can report to auditors, and other systems for reporting to auditors.
- (9) Provide a system to ensure that persons who make reports described in the previous item are not subject to unfair treatment as a result of making such a report.
- (10) Establish provisions for policies regarding procedures for prepayment or reimbursement of costs that arise due to the execution of duties by auditors of the Bank, and for handling other costs or financial obligations that arise due to the execution of other pertinent work.
- (11) Provide a system to otherwise ensure the effectiveness of auditors of the Bank performing an audit.

The outline of the operation status during this fiscal year with regard to the above Internal Control Systems was as follows.

(1) Compliance Efforts

The Compliance Committee convened 16 times during the fiscal year to ascertain, manage, and quickly respond in a unified way to issues relating to compliance with laws and regulations, and to confirm the compliance status.